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S E C R E T SECTION 01 OF 02 BAGHDAD 003166

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TAGS: [PGOV](#) [PREL](#) [KCOR](#) [PTER](#) [PINS](#) [IZ](#)
SUBJECT: BAYJI OIL REFINERY DG TAKING ACTION AGAINST FUEL
SMUGGLING

Classified By: PRT Team Leader Rick Bell, reasons 1.4 (b,d).

[1](#)1. (U) This is a PRT Salah ad Din reporting cable.

SUMMARY

[1](#)2. (S) In a September 18 meeting Bayji Oil Refinery (BOR) Director General Ali Obeidi (protect throughout) told PRT and Joint Security Station officers (JSS) that he has made progress in shutting down corruption and black market profiteering since he assumed control of fuel distribution at the plant on September 1. Obeidi said systemic incompetence within the Ministry of Oil (MOO) remained an obstacle to improving fuel production and distribution. He reported tensions between himself and local and provincial officials, who he claims view the refinery as a source of funding or personal gain. Obeidi said he plans to travel to the U.S. with a group of his senior engineers to check on the status of equipment contracted for the BOR. END SUMMARY.

(S) DG REPORTS PROGRESS AGAINST BOR CORRUPTION

[1](#)3. (S) In a September 18 Ramadan evening meal at the BOR, DG Ali Obeidi told PRT and JSS officers that he has made progress in improving the integrity of fuel distribution from the plant and plans to institute further improvements as the political situation and the necessary technological upgrades allow. (COMMENT: Most of the blackmarket profiteering at the BOR derives from insurgents or criminal gangs acquiring fuel at the government subsidized rate and then reselling it at the black market price. While Obeidi is the DG of the BOR, the MOO had not granted him operational control over fuel distribution, where most theft occurs, until September 1. END COMMENT.)

[1](#)4. (S) Obeidi said that he has instituted new measures to ensure that trucks loading fuel have the proper paperwork and authorizations to purchase subsidized fuel. He explained that incidental reporting from security and managerial personnel under his authority indicated that these measures have met with initial success.

(S) FUEL SHIPMENTS STILL VULNERABLE

[1](#)5. (S) Obeidi conceded that despite the progress with improving distribution at the plant, ground transportation of fuel products will remain vulnerable to theft and black market profiteering until proper fuel tanker tracking can be established from the BOR to provincial distribution centers. Obeidi stressed the importance of remaining vigilant in the fight against corruption and reported that Bayji-based criminal organizations had already used threats to try to persuade at least one plant worker to join their smuggling operation.

(S) MOO NEEDS MORE COMPETENT LEADERSHIP

¶16. (S) Obeidi said that the fundamental problem for the energy sector in Iraq was the lack of competence and technical expertise at the MOO: "The people running things there are not very bright and they aren't oil experts." As an example, Obeidi said the Iraqi State Oil Marketing Organization (SOMO)'s September decision to increase the export price of Heavy Fuel Oil (HFO) had led Jordan, Syria and Iran to cancel their contracts at the very moment when surplus HFO buildup was threatening to shut down refining at the BOR. (NOTE: HFO is a byproduct of fuel refinement. The BOR can only store a limited amount of HFO and must shut down when it has no more spare storage capacity. END NOTE.) As a result, Iraq had no choice but to resume injecting surplus HFO into the northern export pipeline, which could affect the perceived quality of Iraqi oil in the short term. Obeidi added that the filling of key governmental positions along sectarian lines created this type of incompetence, and said that he hoped the next round of elections would lead to more technocratic leadership at the MOO.

(C) BOR AS SOURCE OF PUBLIC FUNDING AND PERSONAL GAIN

¶17. (S) Obeidi described difficult relations with municipal and provincial leaders, who he claims view the BOR as a means to enrich themselves or fund their own initiatives. In regard to the Salah ad Din (SaD) Governorate, Obeidi said he had chosen to limit his contact with provincial authorities since they were "always asking for things." He

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described SaD Governor Hamad Hamood al-Qaisy as honest and sincere in his desire to improve conditions in SaD, but "many of the people under him are corrupt." Obeidi described difficult relations with Bayji Mayor Hussain Ahmad Mojoob al-Qaisy. Obeidi said that he had persuaded the MOO to fund several Bayji municipal initiatives, including the construction of a park and several wells, in an effort to improve relations with the municipality. Obeidi complained, however, that too often the Mayor treated the BOR as the funder of first resort: on one occasion Hussein had sent a written request that BOR funds be used to purchase 20 chairs for the Mayor's office.

¶18. (S) (COMMENT: The BOR is a national, not provincial asset; it is run by officials appointed by the MOO. Many Bayji residents and the municipal leadership, however, feel they are entitled to a greater share of the revenue from the refining facility. This feeling is compounded by inefficiency and corruption of the fuel distribution system, which sometimes causes shortages of fuel in many areas of SaD. END COMMENT.)

(SBU) IRAQI LEADERS NEED TO BE MORE DARING

¶19. (S) Obeidi repeatedly emphasized the need for decisive, daring leadership in Iraq, commenting that "Saddam damaged everything, even the people." Obeidi said that mid-level managers at the BOR had repeatedly warned him about taking any actions that would upset insurgent and terrorist funding networks. As an example of the ways Iraqis are cowed by fear of reprisal, Obeidi recounted that not more than one year earlier, BOR workers had been fearful of removing the Ba'ath Party flag or disrupting smuggling networks. Obeidi cited the Sons of Iraq as a contrasting example of other leaders who had taken a courageous stance to better the country. Obeidi expressed optimism that more Iraqis would be willing to oppose destructive forces as security improves, commenting that "a year ago I had al-Qaida people working here at the BOR. Now that is finished."

(C) BOR OFFICIALS SEEKING U.S. EQUIPMENT

¶10. (C) Obeidi said he has received invitations from several U.S.-based energy firms that have contracted with the MOO to provide equipment upgrades for the BOR. Obeidi shared his plans to travel to the U.S. with a group of three senior engineers as soon as visas could be obtained. PRT officers offered to assist with this process if needed, but Obeidi said the Iraqi MFA will provide the necessary documentation for A visas.

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